

## Message Text

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TAGS: EFIN, PO

SUBJECT: PORTUGAL'S 1975 GNP DECLINE

REF: STATE 188153

1. ESTIMATES OF PORTUGAL'S 1975 GDP DECLINE HAVE GENERATED CONSIDERABLE DEBATE. SEVERAL USG REPORTS INCLUDING SYVRUD'S, UTILIZE OFFICIAL GOP ESTIMATES WHICH APPEARED IN BANK OF PORTUGAL (BOP) 1975 ANNUAL REPORT, VOL. I, PP. 61-64. THOSE ESTIMATES PLACE THE DECLINE AT 3.6 PERCENT AT MARKET PRICES AND 2.7 PERCENT AT FACTOR COSTS. THESE BOP ESTIMATES, PREPARED IN JANUARY 1976, WERE BASED HEAVILY ON EARLY STUDIES BY THE BANK'S MIT ADVISORS AND ON PRELIMINARY, PARTIAL DATA FOR JANUARY-JUNE 1975. THEY CAUSED CONSIDERABLE SURPRISE IN THAT OBSERVERS HGENERALLY FELT THAT THE DECLINE HAD BEEN SHARPER. EMBASSY HAS SOUGHT DETAILS OF THE ESTIMATES, BUT EACH CONVERSATION HAS STRENGTHENED OUR IMPRESSION THAT GOP ESTIMATES REST ON HIGHLY DUBIOUS ASSUMPTIONS. ONE GOP OFFICIAL FAMILIAR WITH THE ASSUMPTIONS UNDERLYING THE ESTIMATES EVEN ADMITTED THAT THE REAL 1975 DECLINE PROBABLY APPROXIMATED 8 PERCENT.

2. EMBASSY HAS NOT BEEN ABLE TO OBTAIN SUFFICIENT DATA TO PREPARE ITS OWN GDP ESTIMATES FOR 1975. USING THE LIMITED OFFICIAL USE

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GOP ESTIMATES AS A STARTING POINT, HOWEVER, WE HAVE

REACHED TENTATIVE CONCLUSION THAT DECLINE APPROXIMATED 10 PERCENT. THIS CONCLUSION, WHICH CERTAINLY IS SUBJECT TO LATER ADJUSTMENT, IS BASED ON FOLLOWING CONSIDERATIONS:

A) FIRST, GOP ESTIMATE INDICATES A REAL DECLINE OF 5 PERCENT FOR THE MANUFACTURING SECTOR. GOP SOURCES STATE THAT FULL 1975 PRODUCTION DATA WAS NOT AVAILABLE WHEN THIS ESTIMATE WAS MADE. AS A SUBSTITUTE, BOP CALCULATED THE SECTOR'S WAGE PAYMENTS IN 1975 AND, ASSUMING CONTINUANCE OF THE 1974 WAGE/PRODUCTION RELATIONSHIP, ARRIVED AT ITS ESTIMATE OF THE SECTOR'S CONTRIBUTION TO GDP. ASSUMPTION OF A CONSTANT WAGE/PRODUCTION RELATIONSHIP APPEARS UNREALISTIC. PRODUCTIVITY FELL SHARPLY IN 1975 BECAUSE OF ABSENTEEISM, MORE FEATHERBEDDING IN PUBLIC SECTOR ENTERPRISES, POLITICAL ACTIVITY, ETC. SOME OBSERVERS CLAIM PRODUCTIVITY FELL SOME 20 PERCENT. TAKING A MORE CONSERVATIVE ESTIMATE OF 10 PERCENT, AND CONSIDERING THAT MANUFACTURING COMPRISES ABOUT 35 PERCENT OF GDP, THE REAL DECLINE IN THAT SECTOR WOULD ADD APPROXIMATELY ANOTHER 3.5 PERCENTAGE POINTS TO THE GDP DECLINE ESTIMATED BY THE BOP.

B) SECOND, THE BOP RESULTS IMPLY A 1975 DEFLATOR OF 14.5 PERCENT. THIS DEFLATOR APPARENTLY IS A COMPOSITE OF THE AVERAGE INCREASE IN LISBON'S WHOLESALE (UP 13 PERCENT LAST YEAR) AND RETAIL (UP 15.3 PERCENT INCLUDING HOUSING; UP 20.4 PERCENT EXCLUDING HOUSING) PRICE INDICES. THESE INDICES, ACKNOWLEDGEDLY OUTDATED IN THAT THEY REPRESENT 1948/49 MARKET BASKETS, PROBABLY UNDERSTATE THE RATE OF PRICE INCREASES BY SEVERAL PERCENTAGE POINTS. AS A CONSEQUENCE, THE DEFLATOR PROBABLY OBSCURES A FURTHER GDP DECLINE OF SEVERAL PERCENTAGE POINTS.

C) GOVERNMENT EXPENDITURES IN 1975 INCLUDED SOME 7 BILLION ESCUDOS IN ASSISTANCE TO RETURNEES FROM THE FORMER COLONIES. PERHAPS ONE-THIRD OF THAT AMOUNT FINANCED PAYMENTS TO RETURNING CIVIL SERVANTS WHO, ALTHOUGH THEY OCCUPIED NO POSITION AND PROVIDED NO SERVICES IN PORTUGAL, RECEIVED 60 PERCENT OF THEIR NORMAL WAGES. THESE "SALARY PAYMENTS" WERE INCLUDED IN THE GDP DEFINITION OF TREASURY OUTLAYS RATHER THAN SUBTRACTED AS TRANSFER PAYMENTS. ON THIS ACCOUNT, WE WOULD SUBTRACT AN ADDITIONAL 0.5 PERCENTAGE POINTS LIMITED OFFICIAL USE

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FROM THE OFFICIAL GDP ESTIMATE.

D) THE OFFICIAL FIGURES SHOW A 13.9 PERCENT DECLINE IN CONSTRUCTION. THIS RATHER LOW ESTIMATE MAY HAVE RESULTED FROM THE UNDERSTATED DEFLATOR AND/OR THE USE OF WAGES AS A GUIDE TO OUTPUT. THE REAL DECLINE MAY NOT HAVE REACHED THE 40 PERCENT MENTIONED BY PRIVATE PORTUGUESE SOURCES, BUT SOMETHING APPROACHING 20 PERCENT MAY BE REASONABLE. IF SO, ANOTHER 0.3 PERCENTAGE

POINTS SHOULD BE DEDUCTED FROM THE OFFICIAL GDP ESTIMATE.

E) FINALLY, BOP OFFICIALS ACKNOWLEDGE THAT THEY  
ESSENTIALLY HAVE NO IDEA AS TO WHAT ACTUALLY OCCURRED IN  
SERVICES. LACKING SUCH INFORMATION, THEY MERELY PRESUMED  
THAT THE LEVEL ACHIEVED IN 1974 WAS REPEATED IN 1975.  
THIS ASSUMPTION IS DIFFICULT TO ACCEPT IN VIEW OF WHAT  
OCCURRED IN TOURISM, INSURANCE, BANKING, SHIPPING, ETC.  
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